Staff Prehearing Memo
Docket No. 10-0467
January 7, 2010

I. INTRODUCTION / STATEMENT OF THE CASE

II. OVERALL REVENUE REQUIREMENT AND REVENUE DEFICIENCY

III. TEST YEAR

IV. RATE BASE

A. Overview

B. Potentially Uncontested Issues

1. Plant

a. AMI Pilot Costs (including AMI Meter Redeployment)

(Tolsdorf Staff Ex. 4.0, pp. 10-12; Rockrohr Staff Ex. 6.0, pp. 31-32)
Staff proposed adjustments in direct testimony based upon the number of meters retired in association with the AMI Pilot program versus the number of meters tested and redeployed in association with the same program. Staff and the Company have since agreed to the number of meters retired, and Staff accepts the adjustment the Company presented in rebuttal testimony. This issue is no longer considered contested.

b. Other

2. General and Intangible Plant

3. Functionalization

C. Potentially Contested Issues

1. Post-Test Year Adjustments

a. *Pro Forma* Capital Additions

(Ebrey Staff Ex. 1.0, pp. 6-10; Ebrey Staff Ex. 16.0, pp. 5-21)
Staff proposes to allow only those projects that are in service by December 31, 2010 as well as certain other discrete projects which the Company has supported as "known and measurable."

b. Accumulated Provisions for Depreciation and Amortization Related Provisions for Accumulated Depreciation

(Ebrey Staff Ex. 1.0, pp. 10-15; Ebrey Staff Ex. 16.0, pp. 21-25)
Staff proposes adjustments to roll forward Accumulated Depreciation on Embedded Plant as of December 31, 2009 to correspond to the date to which gross plant in service has been restated. This is necessary in order to reflect the correct value of plant investment.

c. Accumulated Deferred Income Taxes (ADIT)

(Ebrey Staff Ex. 1.0, pp. 10-15; Ebrey Staff Ex. 16.0, pp. 21-25)
Staff proposes the companion adjustment to ADIT reflect the adjustment to Accumulated Depreciation on Embedded Plant as of December 31, 2009.

2. **Construction Work in Progress**

3. **Specific Plant Investments**

   a. **West Loop Project Repair Disallowances**

   (Rockrohr Staff Ex. 6.0, pp. 7-9; Rockrohr Staff Ex. 21.0, pp. 3-11; Ebrey Staff Ex. 16.0, p. 33 and Schedule 16.11)

   Staff proposes to disallow ComEd's $4,065,248 cost to repair a high pressure fluid filled (HPFF) 138kV cable that failed after ComEd initially placed it in service. Staff interprets Section 9-211 of the Public Utilities Act to require that the Commission allow only prudently incurred investments in a utility's rate base. Staff's recommended disallowance is based upon its finding that ComEd management could and should have taken steps to prevent the failure from occurring, so that ComEd's cost for the cable repair was not prudently incurred.

   b. **Plymouth Court Feeders**

   (Elsaid Staff Ex. 22.0, pp. 3-4)

   Staff supports the Plymouth Court Feeders Project because it hedges against a high-consequence-low probability security and economic risks to ComEd's critical infrastructure that supply Chicago Central Business District. Staff concludes that the Plymouth Court Feeders Project is prudent and used and useful. This issue is no longer considered contested.

   c. **Underground Cable**

   (Ebrey Staff Ex. 1.0, p. 16; Ebrey Staff Ex. 16.0, p. 26)

   Staff proposes that costs for underground cable repairs disallowed in Docket No. 07-0566 are not appropriate for reconsideration in the current case and should not be included in rate base.

   d. **PORCB Costs**

   (Ebrey Staff Ex. 1.0, pp. 10-15; Ebrey Staff Ex. 16.0, pp. 21-25)

   Staff proposes that costs identified as PORCB costs be removed from recovery in the rate case, consistent with the Commission's Order in Docket No. 10-0138. Staff does not agree with testimony offered by Dominion witness Christ or ICEA witness Fein that costs identified as PORCB are recoverable in base rates. Staff believes that the appropriate case for evaluation of PORCB costs are in the Rider reconciliation proceedings provided for in Rider PORCB.

   e. **Allocation of G&I Plant**

   f. **Other**

4. **Cash Working Capital (CWC)**

   (Pearce Staff Ex. 3.0R, pp. 37-43; Pearce Staff Ex. 18.0, pp. 27-36)

   Staff reduced CWC through (a) lower number of revenue collection lag days, based on ComEd Ex. 31.1, provided by Company witness Subbakrishna (but not recommended for use by him until surrebuttal testimony, ComEd Ex. 57.0, p. 2); (b) higher number of expense lead days on intercompany receivables; and (c) higher net expense lead time on two categories of pass-through taxes (EAC/REC and GRT/MUT). The

Company accepted Staff's lower number of revenue collection lag days in surrebuttal testimony (ComEd Ex. 55.0, p. 6).

5. 2009 Pension Trust Contribution

(Pearce Staff Ex. 3.0R, pp. 3-15; Pearce Staff Ex. 18.0, pp. 4-9)

Staff opposes the Company's treatment of the 2009 pension contribution as an element of rate base (referred to by the Company as a pension asset). Staff proposes alternative cost recovery mechanism in the spirit of the Commission's Order in Docket No. 05-0597, whereby the Company would recover through the operating statement, an amount of costs up to (but not greater than) the amount of the corresponding savings (i.e., ratepayer benefit) that is reflected in the 2009 test year.

6. Capitalized Incentive Compensation

(Pearce Staff Ex. 3.0R, pp. 25-26; Pearce Staff Ex. 18.0, pp. 3, 15)

Staff proposed to remove capitalized costs of incentive compensation disallowed by the Commission in previous dockets and the Company removed these costs in rebuttal testimony. Staff accepts the Company's adjustment and this issue is no longer contested.

7. Customer Deposits

(Tolsdorf Staff Ex. 4.0, p. 4; Tolsdorf Staff Ex. 19.0, pp. 4-6)

Staff is proposing to utilize a 2009 year end balance for customer deposits rather than an average balance due to a consistent upward trend over the previous 4 years. Staff is also proposing to use 100% of the Company's customer deposits as a reduction to rate base rather than a jurisdictional amount. Staff recommends an increase in customer deposits and therefore a decrease to rate base of ($85,962,000).

8. Material and Supplies Inventories

(Tolsdorf Staff Ex. 4.0, pp. 2-4; Tolsdorf Staff Ex. 19.0, pp. 3-4)

Staff is proposing to use an average balance of materials and supply which is more representative than a year end balance due to the absence of a discernible trend. Staff is also proposing to reduce the materials and supplies balance by the associated accounts payable as this represents vendor financing and not an investment by the Company. Staff recommends a deduction to rate base of ($3,265,000).

9. Severance Cost – Regulatory Debit

(Tolsdorf Staff Ex. 4.0, p. 8; Tolsdorf Staff Ex. 19.0, pp. 9-11)

Staff recommends the reduction of the regulatory debit associated with the severance incurred with the termination of 108 employees during 2009. Staff's position is that the regulatory asset should be based only on the net effect of terminating 108 employees. The costs incurred should be offset by the savings recognized and the remaining amount should be amortized over three years. Staff's adjustment reduces the regulatory debit by ($3,867,000).

D. Rate Base (Total)

V. Operating Expenses

A. Overview

B. **Potentially Uncontested Issues**

1. **2009 Amortization Adjustment of Existing Regulatory Assets**

(Hathhorn Staff Ex. 2.0, pp. 3-7 and Sch. 2.01)

Staff recommended and the Company accepted in rebuttal testimony an adjustment to adjust the test year operating expenses to reflect amortization of the unrecovered costs of the regulatory assets as of May 31, 2011, the date the tariffs will go into effect from this case, rather than to allow ComEd's proposed 2009 amortization expense, which would have resulted in over recoveries. The Company's rebuttal revenue requirement reflects adoption of Staff's $8.387 million disallowance. ComEd's acceptance of ICC Staff Ex. 2.0, Schedule 2.01 encompasses and addresses the adjustments presented by AG witness Smith in AG/CUB Ex. 3.1, Schedules C-12.1, 12.2, 12.3, 12.4, and C-22.

2. **Outside Professional Services – Jacobs Consulting (Staff)**

(Tolsdorf Staff Ex. 4.0, pp. 8-9)

The Company accepted Staff's adjustment to disallow ($225,000) of payments to Jacobs consultancy for services that are unrecoverable per the Public Utilities Act. This issue is no longer contested.

3. **Advertising Expense (Staff)**

(Tolsdorf Staff Ex. 4.0, pp. 9-10)

The Company accepted Staff's adjustment to reduce advertising expense due to incorrectly classified invoices. Staff's adjustment reduces test year advertising costs by ($51,538). This issue is no longer contested.

4. **Investment Tax Credit Amortization (AG)**

C. **Potentially Contested Issues**

1. **Incentive Compensation Cost and Expenses**

(Pearce Staff Ex. 3.0R, pp. 25-35; Pearce Staff Ex. 18.0, pp. 14-21)

Staff withdrew opposition to the AIP and a portion of LTIP incentive compensation costs in rebuttal testimony. Staff maintains opposition to incentive compensation costs for 17% of the LTIP – Cash Plan and 100% of the LTIP – Restricted Stock Plan.

2. **Rate Case Expenses**

a. **Rate Case Expenses of the Instant Case**

(Hathhorn Staff Ex. 2.0, pp. 8-14 and Sch. 2.04; Hathhorn Staff Ex. 17.0 pp. 3-9 and Sch. 17.01)

Staff recommends disallowing $263,000 in rate case amortization expense costs related to the i) outside of test year consultant and external legal costs related to the Company's alternative regulation proposal and ii) consultant and external legal costs for the preparation of Dr. Hewings' and Dr. Andrade Jr.'s irrelevant testimonies. <u>Staff further recommended and the Company provided in ComEd Ex. 56.3 Rev. further evidence in the record that its rate cases expenses are just and reasonable with respect to Section 9-229 of the Act.</u> Finally, Staff recommends rejection of AG/CUB witness Smith's recommendation in direct testimony to normalize rate case expense. Staff did not opine on AG/CUB witness Smith's rebuttal adjustment to the Company's rate case expenses due to the timing of the proposed adjustment.

b. Alternative Regulation Case

3. Administrative and General (A&G) Expenses

a. Exelon Way Severance Amortization

b. Accounts 920-923

c. Pension Costs

i. Recovery of Actuarially-Determined 2010 Pension and OPEB Costs

(Pearce Staff Ex. 3.0R, pp. 18-19; Pearce Staff Ex. 3.0R, pp. 40-41)

Staff has withdrawn its objection to this pro forma adjustment, and this issue is no longer considered contested.

ii. 2005 Pension Funding Cost Recovery

(Pearce Staff Ex. 3.0R, pp. 16-18; Pearce Staff Ex. 18.0, pp. 9-12)

Staff proposes to reduce the amount of the deferred debit associated with cost recovery of the 2005 pension contribution, in accordance with underlying hypothetical debt issuance.

d. Wages and Salaries *Pro Forma* Adjustment

(Pearce Staff Ex. 3.0R, pp. 24-25; Pearce Staff Ex. 18.0, pp. 13-14)

Staff proposes to reduce the amount of the Company's Pro Forma 2010 increase to reflect a decrease in the overall forecast 2010 payroll expense, offset by the IBEW Local 15 increase for 2011.

e. Director Fees and Expenses

(Pearce Staff Ex. 3.0R, p. 36; Pearce Staff Ex. 18.0, pp. 26-27)

Staff proposes to reduce, by half, the amount of Directors' Fees and Expenses reflected in the test year.

f. Corporate Aircraft Costs

(Pearce Staff Ex. 3.0R, pp. 36-37; Pearce Staff Ex. 18.0, pp. 39-40)

Staff accepted the Company's rebuttal adjustment to remove 50% of the costs of corporate aircraft in the test year and no longer considers this a contested issue.

g. Perquisites and Awards

(Pearce Staff Ex. 3.0R, p. 35; Pearce Staff Ex. 18.0, pp. 21-24)

Staff proposes to remove the cost of stock awards and executive perquisites from the test year.

h. Severance Expenses

(Pearce Staff Ex. 3.0R, pp. 35-36; Pearce Staff Ex. 18.0, pp. 25-26)

Staff proposes to remove the portion of 2009 severance costs that relates to stock compensation benefits. Staff does not take issue with the Company's proposed 3 year amortization of these costs.

i. Charitable Contributions

(Tolsdorf Staff Ex. 4.0, pp. 4-8; Tolsdorf Ex. 19.0, pp. 6-9)

Staff is proposing to reduce the amount of charitable contributions for 1) contributions made by Exelon that have been allocated to ComEd, 2) contributions to organization's outside of ComEd's service territory, and 3) contributions that represent promotional or goodwill advertising. Staff's adjustment reduces G&A expense by ($2,281,000).

j. Legal Fees – IRS Dispute

(Hathhorn Staff Ex. 17.0, pp. 11-12)

Staff recommends adoption of AG/CUB witness Effron's adjustment regarding legal fees since it appears the fees are not jurisdictional in nature (AG/CUB Ex. 2.0, pp. 21-22; AG/CUB Ex. 2.1, Sch. 2.2b). Staff's rebuttal revenue requirement reflects adoption of the AG/CUB's $2.187 million adjustment.

k. Professional Sporting Activity Expenses

(Tolsdorf Staff Ex. 4.0, p. 12; Tolsdorf Staff Ex. 19.0, pp. 13-14)

Staff is proposing to disallow the costs of individual game tickets and luxury box catering expenses for professional sporting events. These extravagances are not necessary costs for providing safe, reliable electric service to customers. Staff's adjustment reduces G&A expense by ($511,000).

l. Workforce Expense Reduction

4. AMI Pilot Expenses

(Tolsdorf Staff Ex. 19.0, pp. 11-13)

Staff proposes to reduce the amount of *pro forma* AMI Pilot expenses for expenses to be incurred from December 2010 through June 2011 on the basis that these costs are not known and measurable. Staff recommends a reduction to test year amortization of ($1,108,000).

5. New Business Revenue Credit

See IX.E. below.

6. Tax Repair Methodology – New IRS Procedures

(Hathhorn Staff Ex. 17.0, pp. 12-13)

Staff recommends rejection of AG/CUB witness Effron's recommendation to adjust rate base and accumulated deferred income taxes if ComEd changes its method for recording repair allowances for tax purposes prior to the close of this case because it is not a known and measurable change to the test year (AG/CUB Ex. 2.0, pp. 28-33). Staff further recommends rejection of the AG/CUB recommendation to require ComEd to maintain the effect of any adjustment related to the repair allowance in a reserve account and to keep a record of any increases to the repair allowance deduction from the effective date of the change, with the cumulative change credited to rate payers in the Company's next rate case. Staff opined that these separate accounting requirements are already in place from the Uniform System of Accounts, and due to the ICC's normalization approach to income taxes, the benefits of any reduced taxes will be reflected as a reduction to rate base in future rate cases.

7. Depreciation of Intangible Plant

8. Late Repayment Charge Reclassification

See IX.D. below.

9. Illinois Electricity Distribution Taxes

(Hathhorn Staff Ex. 17.0, pp. 10-11)

Staff recommends rejection of the AG/CUB proposal to revise ComEd's normalization of the IEDT pro forma adjustment for updated 2009 usage and estimated credit information since the AG/CUB methodology does not reflect the reality that the credits lag the taxes paid by several years, and that 2009 was an abnormally low kilowatt-hour use year (AG/CUB Ex. 1.0, pp. 50-51; AG/CUB Ex. 1.3, Sch. C-19). Therefore, a normalized credit as ComEd proposed is more appropriate.

10. Depreciation and Amortization Expenses (Derivative and Direct)

11. Regulatory Asset Relating to Tax Liability for Medicare Part D

(Pearce Staff Ex. 3.0R, pp. 19-25; Pearce Staff Ex. 18.0, pp. 38-39)

This issue is no longer contested between Staff and the Company.

12. Taxes Other Than Income Taxes (Derivative Adjustments)

13. Income Taxes (Derivative Adjustments)

14. Photovoltaic Pilot Costs

(Tolsdorf Staff Ex. 19.0, pp. 14-15)

Staff is proposing to reduce the test year revenue requirement for costs associated with the Photovoltaic (PV) Pilot. The Company notified the Commission on November 15, 2010 of the cancellation of the PV Pilot. As such, costs related to the PV Pilot cannot be expected to recur in the future and will not be present when the requested rates take effect. Staff recommends a reduction of the revenue requirement of ($10,251). Company witness Houtsma testified in surrebuttal testimony that the Company would not oppose this adjustment (ComEd Ex. 55.0, line 724).

15. Customer Deposits – Interest Expense Component

(Tolsdorf Staff Ex. 19.0, p. 6)

Staff proposes to include the interest expense associated with customer deposits. Staff recommends increasing the test year revenue requirement by ($653,000).

D. Operating Expenses (Total)

VI. RATE OF RETURN

A. Overview

(McNally Staff Ex. 5.0, Schedule 5.1.)

Staff recommends an overall cost of capital of 8.24%. The Company recommends an overall cost of capital of 8.98% (ComEd Ex. 30.1, Schedule D-1, p. 1). AG/CUB recommends an overall cost of capital of 7.79% (AG/CUB Ex. 4.0, p. 37). IIEC recommends an overall cost of capital of 8.10% (IIEC Ex. 1.1).

B. Capital Structure

(McNally Staff Ex. 5.0, Schedule 5.1)

Staff recommends a capital structure for ComEd comprising $49,344,124 (0.54%) of short-term debt, $4,755,524,265 (52.35%) of long-term debt, and $4,279,120,870 (47.11%) of common equity.

Measurement Period for Short-Term Debt

(McNally Staff Ex. 5.0, pp. 3-4; McNally Staff Ex. 20.0, pp. 2-3)

The primary issue with regard to the capital structure is whether short-term debt should be measured over a period *ending* March 31, 2010, as the Company recommends, or a period *centered on* March 31, 2010, as Staff recommends. Staff demonstrated that the use of a period centered on March 31, 2010 better aligns the measurement period for short-term debt with that of the long-term capital components. Moreover, the adoption of that approach is consistent with Commission precedent.

Adjustments to Other Capital Components Based on the Calculation of AFUDC Balances

(McNally Staff Ex. 5.0, pp. 4-5; McNally Staff Ex. 20.0, p. 4)

Both Staff and the Company adjusted the balances of the long-term capital components to avoid double-counting capital already reflected in the Commission's methodology for calculating the allowance for funds used during construction. If the Commission were to adopt the Company's approach to measuring short-term debt, which it should not, the adjustment to the other capital components would need to be revised accordingly (ComEd Ex. 30.0, pp. 26-27). However, if consistent with its previous decisions, the Commission adopts Staff's approach to measuring the balance of short-term debt, which it should, the calculations Staff presented for the balances of long-term debt and common equity should be used.

C. Cost of Short-Term Debt

Commercial Paper

(McNally Staff Ex. 5.0, pp. 8-9)

Staff estimates ComEd's cost of short-term debt to be 0.39%. The Company accepted Staff's cost of short-term debt recommendation (ComEd Ex. 30.0, pp. 27-28).

Credit Facility

(McNally Staff Ex. 5.0, p. 9; McNally Staff Ex. 20.0, p. 2)

ComEd pays annual credit facility commitment fees for access to a credit facility. Staff accepted the Company's calculation of that fee, which adds 0.12% to ComEd's weighted average cost of capital.

D. Cost of Long-Term Debt

(McNally Staff Ex. 5.0, p. 9)

Staff estimated ComEd's cost of long-term debt to be 6.52%. The Company accepted Staff's cost of long-term debt calculation (ComEd Ex. 30.0, p. 28). This issue is no longer considered contested.

E. Cost of Common Equity

Base ROE Calculation

(McNally Staff Ex. 5.0, pp. 10-34)

Staff estimates the investor-required rate of return on common equity ("ROE") for ComEd is 10.00%. Staff measured ComEd's ROE with constant growth discounted cash flow ("DCF"), non-constant DCF, and capital asset pricing model analyses; the Commission has employed each of those models numerous times in prior cases. To estimate ComEd's ROE, Staff first applied those models to a sample of utility companies similar in operating risk to ComEd; the method by which that sample was chosen, too, has been accepted by the Commission numerous times in prior cases. Staff estimated the ROE for the Comparable Sample to be 10.00%.

Effect of Rider UF

(McNally Staff Ex. 5.0, pp. 35-37)

Staff has recommended an 8 basis point reduction to the cost of equity for Rider UF, based on the approach the Commission adopted for Peoples Gas Light and Coke, North Shore Gas, and the Ameren Illinois utilities within the last year.

Effect of revenue de-coupling mechanisms the sample companies have implemented over the last four years

(McNally Staff Ex. 5.0, pp. 38-41)

Staff's Comparable Sample companies were selected on the basis of the similarity in their 2007-2009 financial ratios to those of ComEd. However, since the beginning of 2007, several of for those companies have adopted revenue de-coupling rate mechanisms, which means their current cost of equity reflects less risk than reflected in their 2007-2009 financial ratios. Therefore, Staff has recommended an 8 basis point increase to the sample's cost of common equity to estimate ComEd's cost of equity.

ROE Recommendation

(McNally Staff Ex. 5.0, pp. 42-43)

Staff recommends the Commission adopt a cost of common equity of 10.00% for ComEd (10.00% – 0.08% + 0.08% = 10.00%).

F. Adjustments to Rate of Return

Effect of Company's proposed to 80/20 fixed/variable rate design

(McNally Staff Ex. 5.0, pp. 41-42)

In addition to the adjustments to the cost of common equity discussed in subparts E(2) and E(3) above, Staff recommends a conditional adjustment to the cost of common equity depending on whether or not the Commission authorizes ComEd to move toward a more fixed/variable rate design, as the Company proposes. The greater the extent to which the Company's fixed costs are recovered through a fixed charge, the lower the Company's operating risk will be. Thus, to reflect the lower level of risk, Staff recommends a 40 basis point (0.40%) reduction to ComEd's ROE **if** the Commission adopts an 80/20 fixed/variable rate design for ComEd. Similarly, Staff recommends a 20 basis point reduction **if** the Commission alternatively adopts a 60/40 fixed/variable rate design for ComEd.

Company's proposed 40 basis point adder for energy efficiency

(McNally Staff Ex. 5.0, pp. 55-58; Brightwell Staff Ex. 8.0, pp. 3-4; Brightwell Staff Ex. 23.0, pp. 4-9)

Staff maintains that the 40 basis point ROE proposed by ComEd witness Tierney should be rejected for numerous reasons. First, the company chose a 2009 test year, but inappropriately seeks compensation for potential sales volume losses in *future* years solely on the basis of one factor (i.e., energy efficiency) that might reduce future sales, without consideration of any other factors that affect sales, including those that might increase future sales. Second, the Company has neither demonstrated nor quantified the effect of the risks it claims to be increased by energy efficiency measures. Third, the risk adjustments Staff proposes for revenue de-coupling in Sections E(3) and F(1) above render a separate energy efficiency adder redundant. Finally, contrary to the Company's claims, the proposed adder does not align the incentives of the Company to improve its energy efficiency performance and actually creates a greater disincentive to perform energy efficiency well. It also charges customers more for the same distribution services they already receive than if there was no energy efficiency program.

G. Overall Cost of Capital (Derivative)

(Staff Ex. 5.0, Schedule 5.1)

Staff recommends an 8.24% rate of return on ComEd's rate base.

VII. COST OF SERVICE AND ALLOCATION ISSUES

A. Overview

B. Potentially Uncontested Issues

C. Potentially Contested Issues

1. Embedded Cost of Service Study Issues

a. Class Definitions

i. Residential Classes

ii. Non-residential Classes

b. Primary/Secondary Split

i. Appropriate Methodology (Compliance With Docket No. 08-0532)

(a) Functional Identification of Costs

(Lazare Staff Ex. 26.0, pp. 15-17)

Staff opposes the proposal by IIEC witness Stowe that single phase lines be allocated solely to secondary customers. This proposal ignores those additional costs that primary customers may create on the system.

(b) Direct Observation of ComEd Facilities

(Lazare Staff Ex. 10, pp. 18-26)

Staff contends that the Company failed to employ direct observation in its analysis as directed by the Commission in Docket No. 08-0532. To remedy that shortcoming, Staff has identified areas where direct observation should be used to identify primary and secondary costs.

(c) Sampling

(Lazare Staff Ex. 10, pp. 26-28)

Staff finds shortcomings in the Company's use of sampling techniques to identify primary and secondary costs related to distribution circuits. Staff recommends that ComEd be required to expand the number of samples of circuits reviewed so that they may be more representative of the actual circuits on the ComEd system.

(d) Review of Other Utilities' Treatment of Primary/Secondary Issues

(Lazare Staff Ex. 10, pp. 28-30)

Staff finds the Company's review of other utilities' analyses of these costs to be deficient because it focuses on rate tariffs and not cost allocations. The Company should examine the cost allocations of other utilities and identify whether they are appropriate for ComEd to employ as well.

ii. Other Primary/Secondary Split Issues

(a) 4kV Facilities Allocation

c. Investigation of Assets Used to Serve Extra Large Load Customer Class

d. NCP vs. CP

(Rukosuev Staff Ex. 28.0, pp. 17-20)

Staff recommends the Commission stand by its preference for the Coincident Peak ("CP") methodology for primary lines and substations. Despite the fact that in Docket No. 08-0532 the Commission ruled to change the allocation of distribution substations and primary lines in ComEd's ECOSS from an NCP allocation factor to a CP allocation factor, in the current proceeding, IIEC witness Stowe calls into question the use of the CP allocation method for distribution substations and primary lines. The Commission should continue to follow its Final Order in Docket No. 08-0532 which is consistent with its recent order in Docket Nos. 09-0306/0311 (Cons.) with respect to its preference for the CP methodology.

e. Allocation of Primary Lines and Substations

f. Functionalization of General and Intangible Plant

(Rukosuev Staff Ex. 28.0, pp. 8-18; Rukosuev Staff Ex. 28.0, pp. 2-4)

Staff recommends the Commission reject the Company's proposed changes to the manner it functionalizes General and Intangible Plant (G&I). Staff takes issue with ComEd's proposed changes to its method of functionalizing General Plant (FERC Accounts 389-399) and Intangible Plant (FERC Accounts 301-303). The current approach uses a combination of generic functional allocators and direct assignment, to functionalize G&I costs. In the instant proceeding, for certain G&I accounts, ComEd proposes a switch from the previously approved set of generic functional allocators to a single generic functional allocator ("W&S"). Also, for other G&I accounts, ComEd proposes a switch from the previously approved direct assignment methodology to an assignment methodology based on a generic functional allocator ("W&S"). Staff opposes such changes because the Company has failed to demonstrate that the proposed approach is justified from a cost standpoint, and why general allocators should be used for costs that were previously directly assigned. Instead, Staff recommends that ComEd's revenue requirement should reflect the adjustment shown on Staff Exhibit 16.12.

g. Street Lighting

h. Allocation of Illinois Electricity Distribution Tax

i. Indirect Uncollectible Costs and Uncollectible Costs

j. Customer Care Cost Allocation

i. Allocation Study vs. Switching Study

(Rukosuev Staff Ex. 28.0, pp. 24-41; Rukosuev Staff Ex. 28.0, pp. 10-20)

Staff recommends the Commission reject ComEd's Allocation Study (embedded cost allocation study), and instead adopt ComEd's Switching Study, the results of which are consistent with ComEd's customer service operations and are in line with how other Illinois utilities allocate such costs between distribution and supply. The main reasons for adopting the Switching Study are: 1) the Switching Study recognizes that the cost of providing customer care for unbundled customers is almost equal to the combined cost for bundled customers; 2) ComEd's treatment of customer care costs is similar to the treatment used by other utilities in Illinois; and 3) the Switching Study recognizes that ComEd as the default provider must stand ready to serve customers that have chosen to receive supply service from a RES. Furthermore, Staff recommends that the Commission reject REACT's adjustments to this allocation study. REACT witness Mr. Merola fails to provide cost justification for the alternative allocators he proposes.

ii. Direct Operation and Maintenance (O&M) Costs vs. Total Costs

(Rukosuev Staff Ex. 28.0, pp. 5-10)

Staff recommends the Commission reject the Company proposal to limit the definition of customer care costs to direct O&M costs only. By ignoring the other components of the revenue requirement (costs associated with salaries, pensions, benefits and other similar costs), ComEd has improperly excluded from its calculation of customer care costs allocation substantial costs that are included in its overall revenue requirement. Staff recommends the Commission direct ComEd to include in its analysis the costs associated with the full revenue requirement rather than restrict the analysis only to direct O&M costs.

iii. Adjustment of Allocation Study Allocators

k. Other Docket 08-0532 Compliance Issues

l. Other Issues

D. Rate Moderation

VIII. RATE DESIGN

A. Overview

B. Potentially Uncontested Issues

1. High Voltage Rate Design Simplification

2. Rate MSPS

(Rockrohr Staff Ex. 6.0, pp. 12-14; Rockrohr Staff Ex. 21.0, p. 11)

Staff agrees with ComEd's proposed revision to Rate MSPS, as indicated by ComEd Ex. 41.1. ComEd's proposed revision addresses Staff's concerns about potentially ambiguous charges. This issue is no longer considered contested.

3. General Terms and Conditions

a. New Customer with load that includes motors equal or greater than five horsepower

(Rockrohr Staff Ex. 6.0, pp. 14-15; Rockrohr Staff Ex. 21.0, p. 11)

Staff agrees with ComEd's proposed revision to General Terms and Conditions, as indicated by ComEd Ex. 41.2. ComEd's proposed revision addresses Staff's concerns about fair treatment for existing customers with single-phase five horsepower motors. This issue is no longer considered contested.

4. Miscellaneous Charges and Fees

(Harden Staff Ex. 11.0, p. 6; Harden Staff Ex. 27.0, p. 2)

The Company is willing to accept Staff's recommendation to reduce the increase to the Off-Cycle Termination Fee, the Cable TV Power Supply Test Fee ("CATV Fee"), the Duplicate Information Fee, the Invalid Payment Fee, the Reconnection Fee, the Meter Reading Charges, the Nonstandard Switching Fee, and the Split Load DASR (Direct Access Service Requests) Fees by 50% and adjust ComEd's revenue requirement accordingly. Staff's proposed rates for these fees and charges are shown in Company witness Alongi's rebuttal testimony, ComEd Ex. 49.0, p. 58, Table R2 under Staff Proposed heading and in Staff Ex. 27.0, Schedule 27.1R. The Interval Data Fee is also shown in Company witness Alongi's surrebuttal testimony in ComEd Ex. 68, p. 5. Staff recommends that the Company's proposal to change the Single Bill Credit to $0.46 be approved. If the Commission approves the elimination of the Self-Generating Customer Group, ComEd has agreed, in surrebuttal testimony, to send a direct notice to the affected customers that explains the options the customers have available to them upon the elimination of the Self-Generating Customer Group. ComEd's notice will explain the billing structure of each of the available options (ComEd Ex. 72.0, p. 42).

5. Meter Lease Charges

6. Residential Real Time Pricing Program Costs

(Schlaf Staff Ex. 15.0, pp. 1-5; Schlaf Staff Ex. 31.0, pp. 1-2)

ComEd proposes to eliminate the current $2.25 monthly charge applicable to customers taking service under Rate RRTP. Staff does not oppose the proposal and this issue is no longer considered contested.

7. Standard Meter Allowances

C. Potentially Contested Issues

1. SFV (ComEd Proposal)

(Boggs Staff Ex. 13.0, pp. 16-26; Boggs Staff Ex. 29.0C, pp. 9-16)

Staff recommends that the Commission reject ComEd's proposal to implement a Straight Fixed Variable ("SFV") rate design for the residential class. The proposal for significant increases in customer charges based on the SFV approach presents a number of problems including that it would discourage ratepayers from conserving electricity because more of the fixed costs to serve the classes would be recovered through the customer charge, thereby reducing the incentive for a ratepayer to use less electricity. There would also be an inequality in the recovery of fixed costs between small use residential customers and large use non-residential customers. Finally, in addition to costly customer education, a more efficient and much less costly method of achieving energy consumption reduction would be to send proper price signals for energy conservation to customers through appropriately set usage charges.

2. Decoupling (NRDC Proposal)

(Boggs Staff Ex. 29.0C, pp. 16-20)

NRDC's proposal to implement a four-year revenue decoupling pilot program for single-family and multi-family residential electricity customers is problematic because NRDC has neglected to present a thorough, workable revenue decoupling methodology that is complete with tariff language to support its proposal. It would be premature to approve another revenue decoupling method, and rider, prior to a complete assessment/evaluation of the current revenue decoupling method, Peoples Gas Company and North Shore Gas Company's Rider VBA. The proposal would be better addressed in a separate proceeding or in ComEd's next rate case. Therefore, Staff recommends that the Commission order ComEd to review revenue decoupling alternatives in a separate proceeding or provide the results of its review in its next rate case.

3. Class Definitions

a. Residential Rate Design – Consolidation of Classes

(Boggs Staff Ex. 13.0, pp. 30-34)

ComEd has proposed to consolidate its Single Family Without Electric Space Heat and Single Family With Electric Space Heat classes into one class and its Multi-Family Without Electric Space Heat and Multi-Family With Electric Space Heat classes into a separate residential class. Staff recommends that the Commission approve the Company's proposal to reduce the number of residential delivery classes from four to two as long as the Commission does not order the Company to eliminate the separate supply charges for each of the classes in this rate proceeding and does not eliminate them without an in-depth analysis and review of the impact on customer bills by the Company, Staff and interested parties.

b. New Primary Voltage Delivery Class vs. Primary Subclass Charges

(Lazare Staff Ex. 10.0, pp. 31-35; Lazare Staff Ex. 26.0, pp. 23-25) Staff finds the exemplar rate design presented by ComEd problematic because it does not distinguish primary customers by size. The alternative primary class as represented in ComEd Ex. 49.3 addresses this shortcoming and Staff finds it reasonable.

4. Non-Residential

a. Movement Toward ECOSS Rates

i. Extra Large Load and High Voltage Customer Classes

(Boggs Staff Ex. 13.0, pp. 4-15; Boggs Staff Ex. 29.0C, pp. 2-9)

The Company's approach did not focus on bringing the overall revenues for these classes closer to cost to be consistent with the Commission's directive in Docket No. 07-0566 and instead focused on the Distribution Facilities Charge (DFC). The Company's approach limits the overall increases for these classes and provides them with below average revenue increases. This results in revenues that fall below their cost of service and requires other nonresidential classes to make up the difference. In addition, the Company's proposed approach for these three classes is not consistent with the approach taken for other rate classes. For the Extra Large Load, High Voltage and Railroad classes, the Company's proposed rate design determines the revenue allocation, whereas for other rate classes, their revenue allocation is based on the cost of service. In order to be fair and equitable Staff recommends that a consistent, cost-based approach should be taken for all classes. That approach should be to allocate all class revenues according to the cost of service based under a consistent approach.

ii. Railroad Customer Class

(Boggs Staff Ex. 13.0, pp. 4-15; Boggs Staff Ex. 29.0C, pp. 2-9)

Contrary to the Commission's directive from the previous rate case that the Company approach cost based rates in a four step process, the Company's proposal is a movement of only 10% toward a cost based DFC. If the Commission accepts the Company's 10% increase in this case, it will be more difficult to avoid rate shock for the Railroad class in the final two steps toward full revenue recovery. As a result of the Company's proposal, the revenue allocation for the

Railroad class yields a below average rate increase compared to the nonresidential delivery class average. This results in revenues that fall below their cost of service and requires other nonresidential classes to make up the difference. Staff proposes that Railroad class revenues be increased by 25% of the difference between the Company's exemplar revenues presented in ComEd Ex. 43.3 and full embedded costs.

b. Allocating Secondary Costs Among Customer Classes

(Lazare Staff Ex. 26.0, pp. 12-15)

Commercial Group witness Baudino's proposal that the Commission adopt the method of allocating secondary costs among customer classes employed in Docket No. 08-0532 is more reasonable because it recognizes that larger secondary customers are likely to bypass the distribution system. Staff recommends that this proposal be adopted.

c. Railroad Customers – Utilization of Railroad Customers' Facilities

(Rukosuev Staff Ex. 12.0, pp. 18-24)

Staff recommends the Commission approve the CP<69 FOR RR allocator in ComEd's cost of service study. ComEd proposes in this case to adjust the cost of serving the railroad class downwards to reflect the Company's reliance on railroad facilities to serve other retail customers. ComEd uses the CP<69 FOR RR external factor in the ECOSS to allocate the cost adjustments from railroad delivery to other classes. This adjustment was included in the ECOSS to be in compliance with the Order in Docket No. 08- 0532. Also refer to Section X.G. Other.

d. Dusk to Dawn Street Lighting

5. Collection of Illinois Electricity Distribution Tax

(Lazare Staff Ex. 26.0, pp. 17-22)

Staff takes exceptions to the criticisms presented by IIEC and REACT to the Company's proposal to separately recover the IEDT tax on ratepayer bills. This is the same approach as adopted in Docket Nos. 09-0306/0311 (Cons.).

6. Distribution Loss Factors

(Rockrohr Staff Ex. 6.0, pp. 20-26; Rockrohr Staff Ex. 21.0, pp. 18-19)

Staff recommends that ComEd update its distribution loss factors and re-file its tariffs that utilize or refer to those distribution loss factors upon updating its transmission loss study, rather than waiting for its next rate case. Refer also to Section X.C. below.

7. General Terms and Conditions

a. Residential Service Station (Ownership of Residential Primary Service Connection facilities on private property)

(Rockrohr Staff Ex. 6.0, pp. 15-20; Rockrohr Staff Ex. 21.0, pp. 11-18)

Staff recommends that ComEd furnish, install, operate, replace, and maintain overhead primary service connections for residential customers in a similar manner as it does for non-residential customers to provide safer and less confusing installations.

b. Limitation of Liability Language

8. Rider UF

(Pearce Staff Ex. 3.0R, pp. 44-48; Pearce Staff Ex. 18.0, pp. 37-38)

Staff recommended that the Commission order the Company to begin using the net write-off method instead of using Account 904 for the purpose of determining the utility's uncollectible amount in rates. Staff calculated the percentage of uncollectibles related to delivery services using the net write-off method to be 1.37%. In surrebuttal testimony, the Company accepts Staff's calculated percentage and does not object to the change to the net write-off method (ComEd Ex. 56.0, p. 25; ComEd Ex. 68.0, p. 8).

9. Notification Regarding Elimination of Self Generation Customer Group

10. Docket 08-0532 Compliance Issues

(Lazare Staff Ex. 10, pp. 4-8)

Staff will adopt a two-fold approach to address the Company's failure to comply with Docket No. 08-0532. For those proposals from the Initial Filing that were also addressed in the Supplemental Filing, Staff will address the "exemplar" rates and associated analyses presented in the Supplemental Filing. However, for those proposals from the Initial Filing that were not revised in the Supplemental Filing, Staff will address those proposals from ComEd's Initial Filing.

11. Other Issues

IX. REVENUES

A. Uncontested Issues – Other Revenues – Rate Relief Payment

(Hathhorn Staff Ex. 2.0, p. 7 and Sch. 2.02)

Staff recommended and the Company accepted in rebuttal testimony an adjustment to increase other revenues to remove the adjustment for rate relief payments that ComEd inadvertently included as a reduction to Other Electric Revenues. The Company's rebuttal revenue requirement reflects adoption of Staff's $8 million adjustment. ComEd's acceptance of ICC Staff Ex. 2.0, Schedule 2.02 encompasses and addresses the adjustment presented by AG witness Effron in AG/CUB Ex. 2.1, Schedule DJE-2.1b.

B. Miscellaneous Revenues

C. Weather Normalization

D. Late Payment Charge Revenues

(Hathhorn Staff Ex. 17.0, p. 10)

Staff recommends rejection of the AG/CUB adjustment to include certain revenues in the revenue requirement since it appears that the adjustment would result in supply revenues being included in the delivery services revenue requirement, which is inappropriate (AG/CUB Ex. 1.0, pp. 40-42; AG/CUB Ex. 1.3, Sch. C-14).

E. New Business Revenue Credit

(Ebrey Staff Ex. 16.0, pp. 25-26)

Staff agrees with the Company and recommends that any adjustment to the Company proposed level of pro forma plant additions in the category of New Business approved in the final order should be likewise reflected in an adjustment to the New Business Revenues.

X. OTHER

A. RES Service Issues

<u>Customer Tax ID Changes</u>

(Clausen Staff Ex. 25.0, pp. 4-5)

RESA's proposal is to allow customers who are making a change in ownership or name, or other changes that do not affect the extent that they use energy, to make such a change without going through the unnecessary drop and add process (RESA Ex. 1.0, p. 10). RESA's proposal appears to lack sufficient detail because the issues regarding customers' tax ID changes have come up during previous ORMD workshop discussions. The ORMD supports the approach that parties will continue to work together and has suggested that March 31, 2011 be the deadline for informal discussions. Otherwise, the ORMD will submit a Staff Report to the Commission to initiate a proceeding pursuant to Section 9-250 of the Public Utilities Act. Both RESA and ComEd are supportive of this approach and this issue is no longer considered contested.

<u>"Make Up" Bills</u>

(Clausen Staff Ex. 25.0, p. 5)

Discussions between RESA and ComEd, as well as discussions among RESA, ComEd, and the ORMD have resulted in this issue being dealt with in the same manner as the practice of customer tax ID changes described in X.A.1.

B. UUFR

(Stutsman Staff Ex. 9.0, pp. 3-7; Stutsman Staff Ex. 24.0, pp. 1-19 and Attachments A-N)

Staff recommends that the Commission order ComEd to undertake the UUFR project and provide status reports to Staff every 6 months, and upon completion, detailing the progress being made on the project and details of all programs and projects that were displaced, delayed, or canceled because of ComEd's implementation of the project. Staff has reviewed the project and determined that the UUFR project is necessary to meet the requirements of Section 8-401 of adequate, efficient, reliable, environmentally safe and least-cost. Staff concludes the project would be prudent as well as used and useful.

C. Updated Distribution Loss Study

(Rockrohr Staff Ex. 6.0, pp. 20-26; Rockrohr Staff Ex. 21.0, pp. 18-19)

Staff agrees that ComEd's revised distribution loss studies presented in ComEd Ex. 34.1 and 34.2 and in ComEd Ex. 67.1 and 67.2 are preferable to the distribution loss study that ComEd initially filed. Staff is still concerned about

ComEd's use of an outdated transmission loss study for its distribution loss study calculations.

D. Meters and Meter Reading

(Rockrohr Staff Ex. 6.0, pp. 32-35; Rockrohr Staff Ex. 21.0, pp. 23-25)

Staff expressed concern about an observed high number of meter seals missing from ComEd's meters installed at customers premises, and about high numbers of estimated meter readings associated with ComEd customer accounts. Staff recommends that ComEd consistently keep seals on its meters to counter tampering and theft and to promote safety. Staff also recommends that ComEd develop internal audits that include accountability if electric meters go unread without a valid and documented reason.

E. Competitive Retail Market Development Issues

(Clausen Staff Ex. 25.0, p. 3)

In the event this is still a contested issue, Staff recommends that the Commission direct ComEd to work with the ORMD and other interested parties in developing a presentation of ComEd's Price-to-Compare that is comprehensive yet simple enough for the residential customer to understand. ComEd witness Hemphill stated that the concept of a Price-to-Compare is no longer a contested issue in this proceeding, and work on particulars will occur voluntarily, well before any Commission decision in this docket (ComEd Ex. 65.0, p. 13).

F. New Section 9-250 Investigation of ComEd's Electric Rate Design

(Clausen Staff Ex. 14.0, pp. 4-5; Clausen Staff Ex. 30.0, p. 2)

Staff recommended that the Commission initiate a Section 9-250 proceeding to address issues related to supply rate design. ComEd witness Hemphill stated that ComEd supports the proposal for the Commission to initiate a proceeding to address supply charges and further recommended that any such investigative proceeding be initiated with a firm deadline for its completion in order to avoid unnecessary 20 outlays in effort, time, and money (ComEd Ex. 46.0, p. 28). Staff agrees that the Commission's Initiating Order should include a specific deadline for entering a Commission Order and Staff will propose an appropriate deadline in its draft Initiating Order for the Commission to consider.

G. Other

(Rockrohr Staff Ex. 6.0, pp. 26-31; Rockrohr Staff Ex. 21.0, pp. 19-22)

Staff recommends that the Commission require ComEd to present a plan, including a schedule, to eliminate its current practice of supplying other customers through 71 railroad-owned traction power substations. Staff recommends that ComEd's plan initially focus on those railroad traction power substations that ComEd needs to use in order to avoid overloads on its own distribution circuits.

XI. CONCLUSION

Respectfully submitted,

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